Aerospace industry adapts to global marketplace

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The aerospace industry is a key sector of the Canadian economy. With sales of over $22.4 billion in 2011, Canada ranks fourth globally in aerospace production. Nearly half of that revenue was generated in Quebec, where Montreal is one of the few places worldwide in which all the components needed to assemble an aircraft are available within a single metropolitan area.

To determine whether Canada can keep up with the global pace, Industry Canada commissioned a study to evaluate how well Canadian aerospace firms, both large and small, are adapting to the changing marketplace. The research was conducted by Isabelle Dostaler, a professor in the Department of Management at Concordia's John Molson School of Business. The results, published in *Operations Management Research*, indicate that by adopting a "smaller is better" attitude, Canadian aerospace companies can to adapt to their new business environment.

In recent years, the aerospace industry has undergone major changes. The development and assembly of aircraft is now divided between numerous companies, with a handful of large manufacturers, like Bombardier, acting as "system integrators"—meaning that they assemble large sections designed and manufactured by their suppliers to produce a complete aircraft. With globalization on the rise, the competition to be part of that supply chain is more intense than ever. Canadian aerospace suppliers often find themselves in competition with suppliers based in China, Brazil or Mexico, where labour costs are lower.

To conduct her study, Dostaler interviewed executives from several Canadian aerospace companies about best practices for winning contracts in this new business environment. She asked them about their particular business strategies and assessed the fit between their capabilities and the key success factors to win contracts in the industry. Respondents emphasized the increased pressure to keep costs low and added that dependability and quality were also critical concerns.

Dostaler's research reveals that successful aerospace companies pursue what is known as an "integrated low-cost differentiation strategy" which means that they provide a higher-quality product at a price that is still reasonable. In the new competitive landscape, buyers are no longer willing to pay a premium to buy differentiated products. By using the integrated business strategy, seven of the 13 companies studied created a good fit between their capabilities and the changing market; four more achieved an average fit.

This is encouraging news, but interview questions about the firms' weaknesses suggested room for further growth. Many companies saw their relatively small size as a weakness in the current industry structure. That's because the large manufacturers prefer to work with partners who can share the risks in new business ventures. The smaller the company's size, the more risk-averse it's likely to be.

The combat this situation, Dostaler suggests that "it might be time for smaller Canadian aerospace companies to focus more on market development." She also thinks that they should develop a marketing plan to convince large global companies that "small is beautiful." This may be the piece of the puzzle that is missing from some firms' efforts to adapt to changes in the industry.

Dostaler thinks that government policies should be used to encourage the aerospace industry to recognize the competitive threat of emerging economies. Says Dostaler, "If Canadian aerospace companies could form a cohesive group, their collective strength would be greater than the sum of their individual talents – meaning a great outcome for the industry."

More information: "Competing in the global aerospace supply chain: The case of the Canadian aerospace industry" link.springer.com/article/10.1007%2Fs12063-013-0076-3

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